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SUBJECT: GHANA'S ICT DEVELOPMENT: PRIVATIZATION LIMPS FORWARD

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¶1. (U) SUMMARY: This is the second of two cables on the Information and Communications Technology (ICT) sector in Ghana. The first focused on policy and services. This cable focuses on the privatization of the two national carriers: Ghana Telecom and Westel. Long-stalled plans to privatize a large percentage of both GT and WESTEL may finally be realized in 2007, spurred on by a critical need for revenue to finance energy investment and a serious fiscal deficit. However, the process has been less than transparent. End Summary.

BACKGROUND

¶2. (U) A partial privatization of Ghana Telecom (GT) in 1997 coupled with a management contract with the minority owner, Telekom Malaysia (TM), floundered in 2002 over GoG allegations that TM had not held up its end of the deal to add an additional 400,000 landlines and the GoG and TM ended up in international arbitration. That dispute was not resolved until 2005 when the GoG repurchased TM's 30% share in GT. A subsequent management contract agreed in late 2002 between the Kufuor administration and Norway's Telenor was fraught with allegations of bad faith and mismanagement and since January 2007, GT is being managed locally.

¶3. (U) As part of Ghana's liberalization, a second national operator, Westel, was licensed in December 1996 and began operations in January 1999. It was a joint venture between U.S.-owned Western Wireless International and the Ghana National Petroleum Corporation. The venture never really got off the ground before disputes emerged. Westel froze its investment over interconnection and spectrum allocation disputes and the NCA levied a fine (never paid) on Westel for failing to meet its commitment to install 50,000 fixed lines by 2002. The GoG bought out Western Wireless in September ¶2005.

PRIVATIZATION LIMPS FORWARD

¶4. (U) Privatization revenue projections in GoG budgets are consistently unmet, in recent years due in large measure to the failure to move forward with privatization of the two state-owned telecom firms: Ghana Telecom and Westel. The 2007 supplementary budget, which will be key to financing some critical investment in the energy sector, is counting on about $500 million in revenue from the sale of GT and Westel.

¶5. (SBU) EcoBank and SG-SSB have been appointed as transaction advisors for the sale of 66% of GT to a strategic investor. The GoG is expected to retain 34%. The GoG is counting on more than $300 million from the sale of GT shares; 6 out of 18 interested bidders who reportedly responded to a tender have been short-listed. Bernard Forson, Director General of the National Communications Authority (NCA), told EconOff he does not have confidence the sale

will take place in 2007. An official of EcoBank working on the transaction, however, expects companies to present their bids on November 2 and for the deal to be signed by November 30, 2007. He did not disclose which companies are in the short list but said no U.S. firm is involved.

¶6. (U) An investor in GT will have to address fundamental problems such as poor support services and an overly large workforce. There are 4,000 employees for landline services versus 200 for GT's more profitable mobile division. Furthermore, high interconnectivity costs associated with GT's monopoly on SAT-3 could decrease if the NCA has regulatory control over GT. The decision about whether SAT 3 will be split from GT when the current agreement ends in 2008 lies with the transaction advisors. However, the Chief Director of the Ministry of Communications said SAT-3 will not be split from GT but, to ensure access to SAT-3 on the national fiber optic backbone, the GoG acquired two STM-1 of bandwidth from GT.

WESTEL

¶7. (SBU) WESTEL, the second national telecom operator with a history of unmet targets to expand fixed-line coverage throughout Ghana, currently owns about 1% of Ghana's 360,000 fixed lines. The two appointed transaction advisors are Databank Financial Services Ltd and NTHC Ltd. In the first quarter of 2007, the United Arab Emirates-based Kinz Telecom Group (KT) outbid three other interested parties (AfricanSoft Ltd, CelTel of the Netherlands, and VodaCom of South Africa) to purchase 66.34% of the company, originally for $95 million (the transactions advisor had suggested a value of about $65 million). However, shortly after the deal was announced, it went into a black box of back room discussions and emerged as a $250 million deal. The buyer was required to make

payments within 42 days. The price included existing WESTEL debt for updating technology, infrastructure development, and expansion.

¶8. (SBU) As of July 2007, KT backed out of the deal, unable to meet the unrealistic price and conditions. It is rumored that WESTEL was revalued at a higher price purposely to persuade all companies but CelTel to drop out. CelTel is now back in the running. The current asking price is rumored to be between $125 million and $150 million.

¶9. (SBU) Comment: It remains to be seen whether the privatization of Westel or Ghana telecom will be completed this year but the critical need for resources may help the process along. The GoG has appointed a former VAT Commissioner to keep tabs on progress of all privatizations underway and report weekly to the Ministry of Finance. The manner in which the WESTEL privatization has unfolded is indicative of the kinds of problems seen rather too often in Ghana. A solid process is set out but is delayed or thwarted mid-way through, amidst rumors of political intrigue and favoritism. One of the President's sons is allegedly connected in some way to CelTel, the company that is now rumored to be getting the inside track. End Comment.

BROWN